

**REPORT ON
EXAMINATION
AS TO THE CONDITION**

OF

PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY

As of December 31, 2006

NAIC Company Code 97195
NAIC Group Code 0304

Pruco Life Insurance Company of New Jersey
Financial Examination as of December 31, 2006

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January 9, 2008

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20 West State – CN 325
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Commissioner:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey, a comprehensive risk focused examination has been made of the books, records and financial condition of

Pruco Life Insurance Company of New Jersey
213 Washington Street
Newark, NJ 07102

Hereinafter referred to as the “Company” or “PLNJ”. The following examination report as to the condition of the Pruco Life Insurance Company of New Jersey is respectfully submitted.

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, have performed a full scope coordinated multi-state risk focused examination of PLNJ, in addition to an examination of Prudential Insurance Company of America, the Company’s upstream parent. The Connecticut Insurance Department and the Arizona Department of Insurance participated in this examination. The last examination was completed as of December 31, 2001. This examination covers the period of January 1, 2002 through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The principal portion of the examination was conducted at the Company’s statutory home office in Newark, New Jersey.

The current examination was conducted concurrent with the examinations of its affiliates, The Prudential Insurance Company of America (“PICA”), Newark, New Jersey, Pruco Life Insurance Company (“PLAZ”), Phoenix, Arizona, American Skandia Life Assurance Corporation, Shelton, Connecticut, and Prudential Retirement Insurance and Annuity Company, Hartford, Connecticut.

We conducted our examination in accordance with the 2007 edition of the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (the “NAIC Handbook”). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, we obtained information regarding the Company’s corporate governance environment, identified and assessed inherent risks within the Company and evaluated the Company’s system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, “One of the increased benefits of the enhanced risk-focused approach is to include ...consideration of other than financial risks that could impact the insurer’s future solvency. By utilizing the enhanced approach, the examiner will be reviewing the “financial” and “enterprise” risks that existed at the examination “as of” date and “prospective” risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer.” The Company has adopted the Enterprise Risk Management (“ERM”) framework for proactively addressing and mitigating risks, including prospective business risks”. The Company’s Corporate Governance was found to be effective, contributing to its entity level (or monitoring level) controls, including prospective risks. Refer to the “Corporate Governance” section below for more detailed information.

PricewaterhouseCoopers, LLP (“PwC”) was retained by the Company to audit its statutory based financial statements as of December 31, 2006 as well as all prior years under examination. In addition to the statutory based financial statements, PwC audited the Company’s financial statements in accordance with accounting principles generally accepted in the United States (“US GAAP”). PwC also issued reports for all years under examination in relation to the parent company’s financial reporting controls as part of its Sarbanes/Oxley reporting. They concluded that the statutory financial statements presented fairly in all

material respects, the financial position of the Company at the indicated audit dates and that controls over financial reporting were designed and operating effectively. Where available, the examiners relied upon the work performed by the independent accountants as prescribed by the NAIC Handbook.

The Company has established an Internal Audit Department (“IAD”) function, which is independent of management, to serve the Audit Committee of the Board of Directors (“the Audit Committee”, which is comprised entirely of external directors). IAD also assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations, and company policy. The scope of the Internal Audit program is coordinated with the Company’s independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based joint audit plan is prepared and presented to the Audit Committee and to senior management.

During the course of this examination, consideration was given to the significance and impact of certain IAD findings. To the extent possible, the examiners relied upon the work performed by the IAD as prescribed by the NAIC Handbook.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process that requires disclosure in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

In the prior examination report as of December 31, 2001, the following recommendations were made:

1. It is recommended that the minutes reflect that the Board of Directors received and reviewed the report on examination.

The Company has complied with this recommendation.

2. It is recommended that Prudential or PFI enter into an agreement to indemnify the Company for the \$25,000,000 deductible.

The Company has complied with this recommendation by obtaining its own fidelity bond coverage instead of entering into an agreement for PICA or PFI to indemnify them. See the “FIDELITY BOND AND OTHER INSURANCE COVERAGE” section below for more information.

COMPANY HISTORY

General Overview

The Company was incorporated as PruLife Insurance Company of New Jersey on September 17, 1982. The Certificate of Incorporation of the Company was recorded in the Essex County Clerk’s Office on October 15, 1982, approved by the Commissioner of Insurance of the State of New Jersey and filed with the Department on October 18, 1982. This Certificate

was amended on November 22, 1982, and the Company was renamed to Pruco Life Insurance Company of New Jersey. The amended certificate was approved by the Commissioner and filed with the Department on December 3, 1982.

The Prudential Insurance Company of America ("PICA") purchased all of the Company's authorized voting stock on original issue in December 1982. In September 1983, PICA contributed the Company's stock to Pruco Life Insurance Company, an Arizona domiciled wholly-owned subsidiary.

The Company is authorized to transact the kinds of business described in N.J.S.A. 178: 17-3, 4, 5 and 178: 28- 1 et seq.

Article 5 of the Certificate of Incorporation of the Company was amended on March 11, 1983 to increase the capital stock from \$1,500,000 to \$2,000,000 divided into 400,000 shares of common stock with each share having a par value of \$5.

The Company is licensed in two states, New Jersey and New York, and writes business in both jurisdictions as well as a very small amount in other jurisdictions including: Guam, Puerto Rico, U.S. Virgin Islands and Canada.

PLNJ markets individual life, variable life, term life, variable annuities and fixed annuities through Prudential's sales force in New Jersey and New York. Products currently offered by PLNJ include Variable Appreciable Life, Appreciable Life, Variable Life Insurance, PruSelect, PruVider, Discovery Select, Discovery Life Plus, Discovery Choice and Charity Plus. The company acts as the New York marketing arm of these products for state regulatory purposes.

Administration and management of PLNJ is integrated into Prudential's operations and management structure, and as such PLNJ is considered a strategic subsidiary of Prudential. PLNJ does not utilize MGA's and/or TPA's nor is it a producer-controlled insurer. The company is a member of the Prudential holding company system but is not a participant in a pooling agreement.

Capital Stock

As of December 31, 2006, the outstanding common stock amounted to \$2,000,000 and consisted of 400,000 shares having a par value of \$5 per share. PLNJ is a direct, wholly owned subsidiary of Pruco Life Insurance Company ("Pruco") which, in turn, is a direct and wholly owned subsidiary of The Prudential Insurance Company of America ("PICA"). The Prudential Holdings LLC, a wholly owned subsidiary of PFI, owns 100% of PICA's outstanding capital stock.

Dividends to Stockholders

New Jersey insurance law provides that, except in the case of extraordinary dividends or distributions, all dividends or distributions paid by the Company may be declared or paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and revaluation of assets.

In addition, the Company must obtain approval from the NJDOBI prior to paying a dividend if the dividend, together with other dividends or distributions made within the preceding twelve months, would exceed the specified statutory limit. The current statutory limitation applicable to New Jersey life insurers generally is the greater of 10% of the prior calendar year's statutory surplus or the prior calendar year's statutory net gain from operations

excluding realized investment gains and losses. Based on the 2006 earnings, there is no capacity to pay a dividend without prior approval from the NJDOBI in 2007. There were no dividends to stockholders declared or unpaid during the examination period.

Surplus Debentures

The Company did not have any outstanding surplus notes during the examination period.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company did not have any Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance during the examination period.

MANAGEMENT AND CONTROL

The By-laws state that the Board of Directors shall have not less than five or more than fifteen members. N.J.S.A. 17:27A – 4(d) requires that no less than one-third of the directors be directors who are not officers or employees of the corporation or of any entity controlling, controlled by or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation or any such entity (“Outside Directors”). The Company was found to be in compliance with this statute.

The directors and officers of the Company as of the examination date were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
James J. Avery, Jr.	Senior Vice President, The Prudential Insurance Company of America
Bernard J. Jacob	Senior Vice President and Treasurer, Prudential Financial, Inc., Senior Vice President and Treasurer, The Prudential Insurance Company of America
Helen M. Galt	Senior Vice President and Company Actuary, Prudential Financial, Inc., Senior Vice President and Company Actuary, The Prudential Insurance Company of America
Ronald P. Joelson	Senior Vice President, Asset/Liability and Risk Management, Prudential Financial, Inc. & Senior Vice President, The Prudential Insurance Company of America
David R. Odenath, Jr	Senior Vice President, The Prudential Insurance Company of America
Scott D. Kaplan	Vice President, Financial Management, The Prudential Insurance Company of America

<u>Officers</u>	<u>Title</u>
Scott D. Kaplan	President
Bernard J. Jacob	Treasurer
Thomas C. Castano	Chief Legal Counsel & Secretary
Hwei-Chung Shao	Senior Vice President & Chief Actuary
Tucker Marr	Vice President, Chief Accounting Officer & Chief Financial Officer
Richard R. Benn	Vice President & Comptroller
Kent Sluyter	Senior Vice President
Kenneth S. Solon	Senior Vice President
James M. O'Connor	Senior Vice President

The Board of Directors has appointed an Executive Committee, which consists of three of the current directors, with the remaining directors eligible to serve on the committee if one of the regular committee members is unavailable. The members serving on the Executive Committee as of December 31, 2006 were as follows:

Executive Committee

James J. Avery, Jr.
Bernard Jacob
David R. Odenath, Jr.

Conflict of Interest Procedures

The Company has an ethics policy which provides guidance to directors, officers and employees about their obligation and responsibility to conduct business in a manner that maintains the trust and respect of fellow employees, customers, shareholders, business colleagues, and the general public. The policy provides guidelines for the following ethical dilemma and/or conflicts of interests:

- Confidentiality
- Inside Information
- Prudential Insider Trading Rules
- Involvement in Outside Business
- Financial Transactions
- Fair Competition
- Relationships with Suppliers
- Family Member Business with Prudential
- Gifts / Entertainment
- Political Contributions and Activities
- Laws and Regulations

In addition, the policy requires members of the Board and associates at or above the level of Senior Vice President (or its equivalent) to obtain approval from the Board's Business Ethic Committee for any potential conflicts of interest.

Each year, the Company requires its directors, officers and key employees to sign a conflict of interest questionnaire and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. The Company has established a Business Ethics Committee whose primary purpose is to oversee, on behalf of the Board, the ethics statement and conflict of interest policies of the Company with respect to matters that relate to the Company and its subsidiaries. A review of the minutes of the Business Ethics Committee meetings indicated that conflicts of interest were being reported as instructed and were being reviewed and approved by the Business Ethics Committee as required.

Corporate Governance

The Company has adopted the Enterprise Risk Management (“ERM”) framework for proactively addressing and mitigating risks, including prospective business risks.” Exhibit M of the NAIC Handbook was utilized as guidance for assessing corporate governance. Overall, it was determined that the Company’s corporate governance structure is strong and its corporate governance framework sets an appropriate “tone at the top”, supports a proactive approach to operational risk management, and contributes to an effective system of internal control. It was found that the Board and key executives encourage integrity and ethical behavior throughout the Company and senior management promotes a corporate culture that acknowledges, understands, and maintains an effective control environment.

Management has a strong and effective approach to identifying and mitigating risks across the Company, including prospective business risks. The Company deals proactively with its areas of risk and is knowledgeable about mitigation strategies. Through risk committees and other measures, management discusses the significant issues and reacts to changes in the environment with a clear commitment to address risk factors and manage the business accordingly. The Company’s overall risk management process is well-defined and takes a proactive approach to identifying, tracking, and dealing with current significant and emerging risk factors.

The Company established the Internal Audit Department (“IAD”) function, which is independent of management, to serve the Audit Committee of the Board of Directors (“the Audit Committee”, which is comprised entirely of external directors). IAD also assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations, and company policy. The scope of the Internal Audit program is coordinated with the Company’s independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based joint audit plan is prepared and presented to the Audit Committee and to senior management.

During the course of this examination, consideration was given to the significance and impact of certain IAD findings. To the extent possible, the examiners relied upon the work performed by the IAD as prescribed by the NAIC Handbook.

CORPORATE RECORDS

A review was made of the Board minutes and committee minutes for the period of examination. This examination determined that these minutes adequately approve and support the Company’s transactions and events. During the review of these minutes, the examiner was able to determine that the Company directors had reviewed the prior examination report.

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PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has registered with the State of New Jersey under the registration filed as required under N.J.S.A. 17:27A-3.

The following abridged organizational chart at December 31, 2006 identifies the domestic and foreign insurance companies within the organization. The companies under examination are in bold italics below.

Prudential Financial, Inc. (non-insurer) (**ultimate parent**)

- Pruco Reinsurance Ltd. (foreign insurer)
- Prudential Holdings, LLC (non-insurer)
 - *The Prudential Insurance Company of America (insurer)*
 - *Pruco Life Insurance Company (insurer)*
 - *Pruco Life Insurance Company of New Jersey (insurer)*
 - Prudential Arizona Reinsurance Captive Company (captive reinsurer)
 - *Prudential Retirement Insurance and Annuity Company (insurer)*
 - Universal Prudential Arizona Reinsurance Company (captive reinsurer)
- Prudential International Insurance Holdings, Limited (non-insurer)
 - Pruservicos Participacoes, S.A. (foreign non-insurer)
 - Prudential-Bradesco Seguros, S.A. (foreign insurer)
 - Prudential Life Insurance Company of Taiwan Inc. (foreign insurer)
 - Prudential Seguros, S.A. (foreign insurer)
 - Pramerica Towarzystwo Ubezpieczen Spolka Akcyjna (foreign insurer)
 - Pramerica Life S.p.A. (foreign insurer)
 - The Prudential Life Insurance Company of Korea, Limited (foreign insurer)
 - The Prudential Life Insurance Company, Ltd. (foreign insurer)
- Prudential International Investments Corporation (non-insurer)
 - Prudential Seguros Mexico, S.A. (foreign insurer)
- Prudential Japan Holdings Inc. (non-insurer)
 - The Gibraltar Life Insurance Company, Ltd. (foreign insurer)
 - Kyoei do Brasil Companhia de Seguros (foreign insurer)
- Prudential Annuities Holding Company, Inc. (non-insurer)
 - *American Skandia Life Assurance Corporation (insurer)*
- Vantage Casualty Insurance Company (insurer)

As of December 31, 2006, the Company reported amounts receivable from parents, subsidiaries and affiliates of \$10,300,000 and amounts payable to parents, subsidiaries and affiliates of \$3,200,000. Intercompany balances are settled in cash, generally within thirty days of the respective reporting date.

Intercompany Agreements

The Company is a party to numerous intercompany agreements with PFI and other affiliates involving the following activities: administrative services, tax allocation, and reinsurance. The most significant of those agreements are noted below:

PFI and the Company operate under service and lease agreements, whereby services of the officers and employees, supplies and use of equipment and office space are provided by PFI. PFI periodically reviews its methods for determining the level of administrative expenses charged to the Company. These agreements obligate the Company to reimburse PFI for the approximate cost of providing such services.

The Tax Allocation Agreement is effective for the consolidated federal income tax return year beginning January 1, 2001 between PFI and each of its subsidiaries included in the affiliated group. A method has been established to allocate the consolidated federal income tax liability of the group among its members; to reimburse PFI for payment of such tax liability; to compensate any member for use of its net operating loss, net capital loss, or tax

credits in arriving at such tax liability; and to provide for the allocation and payment of any refund arising from a carryback of net operating losses or tax credits from subsequent tax years.

Debt Agreements

The Company has an agreement with Prudential Funding, LLC, a wholly owned subsidiary of PICA, which allows it to borrow funds for working capital and liquidity needs. The borrowing under this agreement is limited to \$100,000,000. The Company had the following outstanding affiliated debt as of December 31, 2006:

<u>Affiliate</u>	<u>Year Issued</u>	<u>Kind of Borrowing</u>	<u>Carrying Value</u>	<u>Rate of Interest</u>
Prudential Funding LLC	Various	Cash	\$25,348,196	5.32%

The outstanding Prudential Funding LLC affiliated debt balance above is scheduled for repayment in 2007.

Other Transactions

The counterparty for the majority of all derivative financial instruments is an affiliate of the Company, Prudential Global Funding, LLC.

During 2006, the Company sold two Corporate Owned Life Insurance (“COLI”) policies to PICA. The cash surrender value included in separate accounts was \$470,000,000 at December 31, 2006. Fees related to the COLI policies were \$5,000,000 for the year ending December 31, 2006.

In accordance with a revenue sharing agreement with Prudential Investments LLC, which began on February 1, 2002, the Company receives fee income from policyholder account balances invested in the Prudential Series Funds. These revenues are recorded as “Income from separate accounts investment management fees” in the Statutory Statements of Operations and Changes in Capital and Surplus. There are no asset management expenses charged under the agreement.

During the examination period, the Company entered into numerous intercompany reinsurance agreements with its subsidiaries and affiliates. See the “Reinsurance” section of this report for additional detail related to these agreements.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

The Company had the following fidelity bond coverage in effect at December 31, 2006:

- Fidelity Coverage – The fidelity bond includes a single loss limit of liability of \$5,000,000 and a single loss deductible of \$100,000 per occurrence. This includes coverage for losses resulting from employee and agent dishonesty, on premises and in transit.

Other Insurance Coverages:

- Master Property Program - \$600,000,000 aggregate limits, coverage for all real and personal property owned, leased, or intended for use, including property of others in custody and for which Prudential is liable.
- Commercial General Liability - limits of liability of \$2,000,000 per occurrence with a \$2,000,000 self insured retention, coverage for all operations, properties (owned or leased) products, etc. bodily injury and or property damage liability; and personal injury and advertising injury liability.
- Automobile Liability - limits of liability of \$5,000,000 per occurrence, \$1,000,000 self-insured retention, coverage for all Company-owned or leased motor vehicles.
- Excess Liability - limits up to \$200,000,000 per occurrence excess of primary, provides coverage in excess of primary liability insurance.
- Directors & Officers Liability - limits of liability of \$250,000,000 aggregate with a loss deductible of \$150,000,000, reimbursement coverage to the Company for loss for which indemnification is afforded directors and officers for claims arising from actual or alleged wrongful acts.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees and all employee related services are provided by PFI through service agreements. As all employees working on the Company are PFI, PLNJ does not have any welfare or pension plans.

STATUTORY DEPOSITS

The Company is licensed and writes business in New York and New Jersey as well as Guam, Puerto Rico, U.S. Virgin Islands and Canada. The Company is maintaining statutory deposits with the following jurisdiction.

Jurisdiction	Description of Deposit	Book/Adjusted Carrying Value	Fair Value
New Jersey	US Treasury Notes	\$453,407	\$455,757
Totals		\$453,407	\$455,757

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed to transact business in the States of New Jersey and New York as well as Guam, Puerto Rico, U.S. Virgin Islands and Canada. The Company primarily operates within the individual life and individual annuity segments of the U.S. Consumer Division of Prudential and markets individual universal life insurance, variable universal life insurance, and term life insurance, individual variable and fixed annuities and guaranteed investment contracts. Many of the Company's products provide for general and separate account options.

In general, investment income, investment gains and losses, and overall investment risk are borne by the policyholder for Separate Accounts fund options. Exceptions to this relate to the accounting and reporting of funds invested in the PACE GIC contracts and the market value adjustment ("MVA") options of several other products. Investments related to GICs and to MVA options are reported in the Separate Accounts, but the contractholders technically do not participate in the investment gains or losses from the assets relating to the account and the related investments are carried at amortized value.

Individual life business is produced primarily through two main distribution channels; retail distributors (represented by Prudential career agents/agencies) and wholesale or independent agents (relationships with independent brokers and independent brokerage general agents are maintained by employees through Prudential Select). Annuities issued by the Company are distributed by Prudential Investment Management Services LLC ("PIMS"). PIMS enters into distribution agreements with independent broker-dealers, national wirehouses and regional securities firms. Annuity products are also sold through Prudential's retail distribution channel and through the financial advisors of Wachovia Securities, a joint-venture in which PFI has a 38% ownership interest.

As of December 31, 2006 there were approximately 2,562 active agents/representatives in the Prudential field force. This represents a decrease from prior periods, as PFI continues to seek to improve the productivity and professionalism of its sales force through the implementation of new production standards and recruiting and training processes.

Treatment of Policyholders

The Company maintained a complete record of all complaints that it received since the date of the prior examination, as required by N.J.S.A 17:29-4(10).

REINSURANCE

The Company participates in reinsurance with affiliate and unaffiliated companies in order to provide greater diversification of business, provide additional capacity for future growth and limit the maximum net loss potential arising from large risks. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable terms and conditions.

Since 2000, the Company has reinsured the majority of the mortality risk it assumes under its newly sold individual life insurance products with both affiliated and unaffiliated companies. As of the end of 2006, all reinsurance arrangements were with affiliated companies and the maximum amount of individual life insurance the Company may retain on any life is \$100,000.

In September 2004, the Company entered into an agreement to reinsure its term life policies with an affiliate, Prudential Arizona Reinsurance Captive Company ("PARCC"). The Company reinsures with PARCC, 90% of the risks under such policies through an automatic and facultative coinsurance agreement. The new coinsurance agreement with PARCC also replaces the yearly renewable term agreement with external reinsurers to cede the mortality risk on this block of business. As of December 31, 2006, premium, benefits and reserves ceded were \$86,095,000, \$23,394,000 and \$434,434,000, respectively.

In December 2004, the Company recaptured its excess of loss reinsurance agreement with PICA and replaced it with a revised agreement to reinsure all risks, not otherwise reinsured. The Company is not relieved of its primary obligation to the policyholder as a result of these reinsurance transactions. As of December 31, 2006, premium, benefits and reserves ceded were \$29,946,000, \$27,912,000 and zero, respectively.

During 2005, the Company entered into a new reinsurance agreement with Pruco Reinsurance, Ltd (“Pruco Re”) as part of its risk management and capital management strategies for annuities. This agreement became effective October 3, 2005 and provided for 100% reinsurance of its Lifetime Five benefit feature. As of December 31, 2006, premium, benefits and reserves ceded related to this treaty were \$485,000, zero and \$502,000, respectively. Effective March 20, 2006, the Company entered into a coinsurance agreement with Pruco Re providing for the 100% of the reinsurance of its Spousal Lifetime Five benefit feature sold on its annuities. As of December 31, 2006, premium, benefits and reserves ceded related to this treaty were immaterial

Reinsurance ceded arrangements do not discourage the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The likelihood of a material reinsurance liability reassumed by the Company is considered to be remote.

There are no non-affiliated reinsurers that were owned in excess of 10% or controlled, either directly or indirectly, by the Company or by any representative, officer, trustee, or director of the Company.

The examination team reviewed a sample of reinsurance agreements to determine the extent of risk transfer. The agreements reviewed appeared to adequately transfer risk.

ACCOUNTS AND RECORDS

Evaluation of Controls in Information Systems

The Information Systems (“IS”) infrastructure for all of the Company is maintained by Corporate Technology Management (“CTM”), and smaller IS groups within the various business units. CTM is responsible for maintaining the Company’s overall technology infrastructure utilized for data processing by the business units within the Company, and for overall information systems standards, while business unit Information Technology (“IT”) is responsible for developing and maintaining their respective business applications. CTM is independent of the business units and its organization includes two data centers.

The IS portion of the examination was performed in accordance with the NAIC Handbook. The review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, personal computers, and mainframe controls.

We evaluated the control testing performed by the Company’s Risk Management function, IAD, and PwC, and performed testing of end user computing and IS outsourcing controls. As a result of the procedures performed, the IT Examination Team obtained reasonable assurance that IT general controls and general application controls were functioning as

management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

Administrative Offices

While the primary management and financial reporting activities are conducted from the Home Office in Newark, New Jersey, the Company maintains several administrative offices, including the following:

- **Ft Washington (Dresher) PA:** Individual Life Insurance and Annuity operations including new business, and claims processing.
- **Louisville, KY:** A third-party vendor performs Individual Life Insurance Remittance processing.
- **Minneapolis, MN:** Individual Life Insurance operations including commission processing.
- **Roseland, NJ:** Information Systems area.
- **Woodbridge, NJ:** Treasury Operations, some Individual Annuity operations.

FINANCIAL STATEMENTS

Net Admitted Assets as of December 31, (000's)	2006	2001
Bonds	\$ 884,634	\$ 478,311
Preferred Stocks	4,362	678
Mortgage loans on real estate:		
First liens	49,081	-
Cash & cash equivalents	50,193	87,228
Short-term investments	8,491	-
Contract Loans	160,614	158,754
Other invested assets	10,138	714
Receivables for securities	6,628	-
Subtotal cash and invested assets	<u>1,174,141</u>	<u>725,685</u>
Investment income due and accrued	13,568	10,399
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection	(5,259)	-
Deferred premiums and agents' balances and installments booked but deferred and not yet due	-	419
Reinsurance:		
Amounts recoverable from reinsurers	5,402	855
Other amounts receivable under reinsurance contracts	3,183	-
Net deferred tax asset	5,483	2,681
Guaranty funds receivable or on deposit	74	97
Receivable from parent, subsidiaries and affiliates	10,309	25,411
Aggregate write-ins for invested assets	120	535
From Separate Accounts Statement	<u>2,658,932</u>	<u>1,633,727</u>
Total Net Admitted Assets	<u><u>\$ 3,865,953</u></u>	<u><u>\$ 2,399,809</u></u>

FINANCIAL STATEMENTS (Continued)

Liabilities as of December 31, (000's)	2006	2001
Aggregate reserve for life contracts	\$ 952,835	\$ 576,019
Liability for deposit-type contracts	45,066	7,669
Contract claims:		
Life	3,774	16,770
Premium and annuity considerations received in advance	714	170
Commissions to agents due or accrued	150	56
General expenses due or accrued	6,684	3,488
Transfer to Separate Account due or accrued (net)	(35,602)	(12,778)
Taxes, licenses and fees due or accrued	356	592
Current federal income taxes due or accrued including realized gains/(loss)	13,014	-
Amounts withheld or retained by company as agent or trustee	864	8
Remittances and items not allocated	12,206	2,322
Borrowed money and interest thereon	25,359	-
Miscellaneous Liabilities:		
Asset valuation reserve	10,927	3,713
Interest maintenance reserve	-	2,837
Reinsurance in unauthorized companies	-	1,446
Payable to parent, subsidiaries and affiliates	3,240	87
Payable for securities	48	-
Aggregate write-ins for liabilities		
Cash collateral held for loaned securities	28,212	-
Securities sold under agreement to repurchase	4,005	-
Other liabilities	453	54,826
From Separate Accounts Statement	2,656,468	1,631,113
Total Liabilities	\$ 3,728,773	\$ 2,288,338
Capital and Surplus as of December 31,		
Common capital stock	\$ 2,000	\$ 2,000
Gross paid in and contributed surplus	145,553	105,579
Unassigned funds (surplus)	(10,373)	3,893
Total Capital and Surplus	137,180	111,471
Total Liabilities, Capital, and Surplus	\$ 3,865,953	\$ 2,399,809

FINANCIAL STATEMENTS (Continued)

Summary of Operations for the Year Ended December 31, (000's)

	<u>2006</u>	<u>2001</u>
Premium and annuity considerations for life and accident and health contracts	\$ 282,078	\$ 143,432
Net investment income	63,017	56,859
Amortization of interest maintenance reserve	(3,562)	74
Separate Accounts net gain from operations excluding unrealized gains or losses	789	(474)
Commission and expense allowance on reinsurance ceded	31,652	-
Miscellaneous Income:		
Income from fees associated with investment management, administration, and contract guarantees from S/A	63,029	32,725
Aggregate write-ins for miscellaneous income	9,713	23
Total Income	<u>446,716</u>	<u>232,639</u>
Death benefits	31,098	25,044
Annuity Benefits	946	11,455
Disability benefits and benefits under A&H contracts	3,437	3,104
Surrender benefits and other fund withdrawals	159,932	109,392
Interest and adjustments on contract or deposit-type contract funds	2,089	977
Payments on supplementary contracts with life contingencies	52	44
Increase in aggregate reserves for life and A&H contracts	29,271	40,618
Total Benefits	<u>226,825</u>	<u>190,634</u>
Commissions on premium, annuity considerations and deposit-type contracts	26,901	8,979
General insurance expenses	63,611	37,597
Insurance taxes, licenses and fees	3,969	1,686
Increase in loading on deferred and uncollected premiums	(1,264)	68
Miscellaneous expense	-	22
Net transfers to or (from) Separate Accounts	119,608	2,298
Total Benefits and Expenses	<u>439,650</u>	<u>241,284</u>
Net gain from operations before dividends to policyholders and federal income taxes	7,066	(8,645)
Dividends to policyholders	-	-
Net gain from operations after dividends to policyholders and before federal income taxes	7,066	(8,645)
Federal income taxes	5,324	(4,298)
Net gain from operations after dividends to policyholders and Federal income and before realized capital gains or (losses)	1,742	(4,347)
Net realized capital gains (losses) less capital gains tax and transfers to the IMR	(329)	(7,727)
Net Income	<u>\$ 1,413</u>	<u>\$ (12,074)</u>

FINANCIAL STATEMENTS (Continued)

Changes in Capital and Surplus for the year ended December 31, (000's)	2006	2005	2004	2003	2002	2001
Capital and surplus, December 31, Previous Year	<u>\$ 141,798</u>	<u>\$ 147,618</u>	<u>\$ 89,531</u>	<u>\$ 63,793</u>	<u>\$ 111,471</u>	<u>\$ 294,313</u>
Net income (loss)	1,413	(592)	57,029	(60,168)	(45,018)	(12,074)
Change in net unrealized gains or (losses)	539	(177)	884	424	(1,804)	111
Change in net deferred income tax	7,346	9,299	(25,131)	13,067	16,603	729
Change in non-admitted assets and related items	(12,219)	(11,150)	27,171	(9,798)	(20,322)	(10,558)
Change in liability for reinsurance in unauthorized companies	1	(1)	751	(2,248)	206	(1,194)
Change in reserve on account of change in valuation basis:						
(increase) or decrease	38	59	100	46,556	66	5,717
Change in asset valuation reserve	(1,736)	(3,410)	(2,673)	(1,986)	2,591	3,198
Surplus (contributed to) withdrawn from Separate Accounts	437	1,966	169	1,109	(174)	489
Other changes in surplus in Separate Accounts Statement	(437)	(1,966)	(169)	(1,109)	174	(489)
Change in surplus notes	-	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-	-	17,232
Capital changes	-	-	-	-	-	-
Surplus adjustment	-	-	-	40,000	-	(19,447)
Dividends to stockholders	-	-	-	-	-	(166,556)
Aggregate write-ins for gains and losses in surplus	-	152	(44)	(109)	-	-
Net change in capital and surplus for the year	<u>(4,618)</u>	<u>(5,820)</u>	<u>58,087</u>	<u>25,738</u>	<u>(47,678)</u>	<u>(182,842)</u>
Capital and surplus, December 31, Current Year	<u>\$ 137,180</u>	<u>\$ 141,798</u>	<u>\$ 147,618</u>	<u>\$ 89,531</u>	<u>\$ 63,793</u>	<u>\$ 111,471</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Permitted/Prescribed Practices

The following practices, while permitted or prescribed by the NJDOBI, are not in accordance with the NAIC Accounting Practices and Procedures Manual.

- a. On December 21, 2001, the Company received approval from the NJDOBI to report overnight loans from PFI as admitted assets on the books of the Company. The intercompany cash management arrangement, Enterprise Liquidity Account, was created to enable the Company, as well as other insurance and non-insurance affiliates of PFI, to advance and receive funds overnight to/from PFI. If an intercompany advance from PFI is outstanding over quarter end or at year-end, the advance is classified as an intercompany cash equivalent in "Cash and short-term investments." This accounting treatment differs from that prescribed by the NAIC Accounting Practices and Procedures Manual. There was no activity in this account for the Company during the examination period.

2. Adoption of New Statutory Accounting Principles

- a. On January 1, 2003 the company adopted Statement of Statutory Accounting Principal No. 86, *Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions* ("SSAP No. 86"). The Company elected to apply SSAP No. 86 to all derivatives to which it was a party to as of January 1, 2003. Prior to SSAP No. 86, the changes in fair value of derivatives were recorded in "Net realized capital gains or losses". Effective with SSAP No. 86, these changes were recorded in "Change in net unrealized capital gains (losses)".
- b. On January 1, 2005 the company adopted Statement of Statutory Accounting Principal No. 88, *Investments in Subsidiary, Controlled and Affiliated* ("SCA") *Entities* ("SSAP No. 88"). Effective with SSAP No. 88, all of the Company's noninsurance SCAs that are classified as "Common stocks" or "Other invested assets" are recorded based on the audited U.S. GAAP equity of the investee. The change in U.S. GAAP equity is included in "Change in net unrealized capital gains (losses)". There was no impact on the company

3. Reserve for Life Contract and Deposit-Type Contracts

Reserves were reviewed for compliance with standard valuation laws, applicable NAIC Actuarial Guidelines and Model Regulations. Reserve trend analyses were also performed and generally produced reasonable results. Minimal substantive reserve testing was performed for this examination as a direct result of the examiners' conclusions that strong internal controls were in place and operating effectively.

For the year ended December 31, 2006, the reserve balances appear fairly stated and are calculated using valuation parameters which appear to be free of any error that would materially affect reserve calculations.

SUBSEQUENT EVENTS

The subsequent events period considered for the examination was December 31, 2006 through the date of the examination report incorporated herein and there were no subsequent events noted.

SUMMARY OF EXAMINATION RECOMMENDATIONS

The full scope coordinated multi-state risk focused examination of the Prudential yielded no reportable recommendations.

CONCLUSION

The undersigned hereby certify that an examination has been made of the **Pruco Life Insurance Company of New Jersey** and the foregoing report is true to the best of our knowledge and belief.

Respectfully submitted,

/S/

Craig A. Moore, CFE
Examiner-In-Charge
Representing the State of New Jersey

Under the Supervision of

/S/

Kenneth O'Connor, CFE
Reviewer
Representing the State of New Jersey

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Catherine M. Liptak, on this 26th day of February, 2008.

/S/

Notary Public of New Jersey

My commission expires: January 21, 2013